

Message Text

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ACTION ARA-10

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FM AMEMBASSY QUITO

TO SECSTATE WASHDC 3008

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 7115

E.O. 11652: GDS

TAGS: ENRG, EFIN, EC

SUBJECT: PETROLEUM: JARRIN'S LAST ACTIONS

1. ON MINNATRES JARRIN'S LAST DAY IN OFFICE (OCTOBER 22), THREE NEW MEASURES AFFECTING PETROLEUM COMPANIES WERE ANNOUNCED. ALTHOUGH EACH OF THEM CONCERNS A FINE POINT, THEY WERE HALF-EXPLAINED TO THE NON-COMPREHENDING PRESS TO ENSURE FULL BALLYHOO AS FURTHER ASSERTIONS OF DEFENSE OF NATURAL RESOURCES.

2. THE FIRST MEASURE WILL COST TEXACO-GULF MONEY, IN THE NEIGHBORHOOD \$500 THOUSAND IN THE OPINION OF GULF VICE PRESIDENT DIAZ. BY DECREE THE API GRAVITY OF CRUDE HENCEFORTH AND RETROACTIVELY TO THE INITIATION OF TEXACO-GULF EXPORTS IN AUGUST 1972 IS TO BE CALCULATED AS IF FREE FROM WATER AND SEDIMENT. ACTUAL IMPURITIES OF ONE-HALF TO ONE PERCENT LOWER THE API OF PIPELINE CRUDE BY SOME FRACTION OF A DEGREE. THE REFERENCE PRICE FOR TAX PURPOSES INCREASES BY 15 CENTS (ORIGIANLLY 10 CENTS) PER DEGREE ABOVE 28, AND IS CALCULATED IN TENTHS OF DEGREE. GULF BELIEVES THE RECALCULATION WILL INCREASE GOE TAKE BY AROUND ONE-HALF CENT PER BARREL.

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3. THE SECOND MEASURE MAKES TEXACO-GULF PAY TO THE GOE THE 86 PERCENT INCOME TAX THAT IS APPLICABLE TO THE PRODUCTION PAYMENT THAT GOES FROM TEXACO-GULF TO THE NORSUL AND PHOENIX COMPANIES ON THE OUTPUT FROM ACREAGE ONCE HELD BY THE MINAS Y PETROLEOS COMPANY. (SEE QUITO A-86 OF JUNE 22, 1973 AND PREVIOUS FOR TAX DECREE AND BACKGROUND ON THIS TANGLE.) THE NEW MEASURE WAS GIVEN OUT TO LOCAL PRESS AS A \$10 MILLION BACK TAX LEVY ON TEXACO-GULF, AND PEKING NCNA HAS REPEATED IT AS SUCH. ACTUALLY IT IMPOSES NO NEW FISCAL LIABILITY ON TEXACO-GULF OR ON NORSUL-PHOENIX. IT CLARIFIES THAT TEXACO-GULF IS TO WITHHOLD AND PAY THE INCOME TAX ON THE PRODUCTION PAYMENT, REGARDLESS OF FACT THAT THIS TAX AND PROCEDURE WERE NOT PROVIDED FOR IN TEXACO-GULF'S PRIVATE CONTRACT WITH NORSUL AND PHOENIX.

4. THIRD MEASURE OVERTURNS A PROVISION IN THE 1973 CONTRACTS WITH EXPLORATORY FIRMS ANGLO, CAYMAN AND OKC. ACCORDING TO CONTRACTS, CASH ROYALTY ON THE PORTION OF CRUDE PRODUCTION DESTINED FOR DOMESTIC USE WOULD BE CALCULATED ON BASIS OF DOMESTIC PRICE (CURRENTLY 16.67 PERCENT OF \$1.48). NEW MEASURE WILL APPLY ROYALTY ON BASIS OF REFERENCE PRICE (CURRENTLY 16.67 PERCENT OF \$13.70) ON DOMESTIC USE CRUDE AS WELL AS EXPORT CRUDE. TEXACO-GULF HAS BEEN REQUIRED TO PAY ON THE LATTER BASIS FOR SOME TIME, AFTER ARGUING UNSUCCESSFULLY THAT IT WOULD BE WRONG AND UNFAIR.
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